

Press Release

Nandhana Foods Private Limited

July 03, 2020

Rating

| Facilities | Amount (Rs. crore) | Rating | Rating Action |
|------------------------------|---|--|---------------|
| Long term Bank Facilities | 54.87 | IVR BB+ / Stable Outlook (IVR Double B Plus with Stable Outlook) | Assigned |
| Total | 54.87 (Fifty-four crore and eighty- seven lacs only) | | |

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Nandhana Foods Private Limited (NFPL) derives comfort from long track record of Nandhana group in the hospitality sector, strong brand presence supported by high demand in the region and regular infusion of equity from promoters. These rating strengths are partially offset by small scale of operations, intense competition with high geographical concentration and moderately leveraged capital structure.

Key Rating Sensitivities

Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals which is significantly higher than Infomerics expectation could lead to a positive rating action.

Downward factors

- Dip in operating income and/or profitability impacting the debt coverage indicators or liquidity, subdued industry scenario could lead to a negative rating action.
- Variation of more than 5% in key financial figures of audited financial statements from reported figures of provisional financial statements might trigger the negative rating action

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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Long track record of Nandhana group in the hospitality sector

Nandhana group (NG) is promoted by Dr. R Ravichandar having experience of over three decades in the hospitality sector. Nandhana group has presence in the hospitality sector since 1997 and Nandhana Palace is a renowned brand serving Andhra specialties and multi cuisine foods through the restaurant chain business across the Bangalore city with 16 outlets. Nandhana group has expanded into business of hotel industry through incorporation of Nandhana Hotels Private Limited in 2004. Currently company runs its 6 hotels under NHPL meeting the demand of high-end hotels in the city.

Strong brand presence supported by high demand in the region

Nandhana group has strong brand presence in Bangalore city accounted to its specialty in serving the Andhra cuisine through 16 outlets across the city. NG has a well-established relationship with corporate clients serving them with premium accommodation facilities. NG also derives revenue through catering services for corporate events. NG has the Hotels at the premium location of the city such as Koramangala, Marathahalli, Sahakar Nagar and other prime locations nearby to areas having corporate presence.

Regular infusion of equity from promoters

Promoters have infused funds of around Rs. 6.52 crore into NFPL and NHPL through equity infusion and share premium account over last three fiscals. Regular infusion of equity from promoters imparts comfort towards personnel capacity of the borrowers and also indicates the intent to support the business as and when required.

Key Weaknesses

Small scale of operations

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Nandhana group (NG) has a small scale of operation with a PAT of Rs. 2.77 crore on a total operating income of Rs. 106.11 crore. Small scale of operations restricts the financial flexibility of the group. Further, the NG has achieved a moderate growth of ~9.64% in FY20 as compared to FY19. Moreover, the profit margins of the company reported satisfactory at 2.55% in FY20 improved from 0.71% in FY19.

Intense competition with high geographical concentration

Nandhana group Operations are concentrated in Bangalore city hence highly exposed to local cultural dynamics as well as political/ economic conditions. Furthermore, restaurant industry has intense competition due to presence of many small players in the sector, hence the company is also exposed to intense competition from other market players. However, NG's established presence over two decades imparts some comfort.

Moderately leveraged capital structure

The debt profile of the group is largely comprised of short-term debts (Overdraft) and long-term loans, due to its capital-intensive nature of operation. Owing to its term loan borrowings, the overall gearing ratio of the company remained moderate as on the past three account closing dates. Further, the overall gearing ratio stood at 2.08x as on March 31, 2020 against 2.40x as on March 31, 2019. Further, total indebtedness of the company has also stood moderate at TOL/ANW at 2.29x as on March 31, 2020 (2.73x as on March 31, 2019).

Analytical Approach: For arriving at the ratings, INFOMERICS analytical team has combined the financials for FY18-FY20 and projections for FY21-FY23 of Nandhana Foods Private Limited and Nandhana Hotels Private Limited, commonly referred as Nandhana group as these companies have a common management team and operational & financial linkages.

Applicable Criteria:

Rating Methodology for Hospitality Sector

Financial Ratios & Interpretation (Non-financial Sector)

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Liquidity: Adequate

The liquidity position of the Nandhana Group stands adequate marked by adequacy of expected gross cash accruals to serve the debt obligations. Further, NG current ratio reported at the level of 1.43x also imparts comforts towards meeting the near-term obligations. However, NG has working capital intensive nature of business leading to heavy utilization of working capital limits. NG reported working capital utilization reported at 88% for past 12 months ended at May-2020, indicating limited buffer to support additional working capital requirement. On Standalone basis NFPL has generated sufficient cash accrual of around Rs. 6.98 Cr as against debt repayment of Rs. 2.36 crore in FY20 imparting comfort for serving debt obligations on standalone basis.

About the Company

Incorporated in year 1997, Nandhana Foods Private Limited (NFPL) is engaged into running of 16 multi cuisine food outlets across Bangalore city. Nandhana Foods is part of a Nandhana Group engaged into hospitality services since 1997. Nandhana Group is incorporated by Mr. R Ravichandar and family members. Nandhana Group has ventured into hotel business and incorporated Nandhana Hotels Private Limited (NHPL) in year 2004 under which company runs 6 hotels located at the premium location of the Bangalore.

Financials (Consolidated):

(Rs. crore)

| For the year ended* | 31-03-2018 | 31-03-2019 |
|----------------------------|-------------------|-------------------|
| | Audited | Audited |
| Total Operating Income | 68.93 | 96.78 |
| EBITDA | 10.66 | 13.46 |
| PAT | 1.52 | 0.71 |
| Total Debt | 51.87 | 61.76 |
| Tangible Net worth | 20.63 | 25.69 |
| EBITDA Margin (%) | 15.46 | 13.91 |
| PAT Margin (%) | 2.12 | 0.71 |
| Overall Gearing Ratio (x) | 2.51 | 2.40 |

*Classification as per Infomerics' standards

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Financials (Standalone):

(Rs. crore)

| For the year ended* | 31-03-2018 | 31-03-2019 |
|---------------------------|------------|------------|
| | Audited | Audited |
| Total Operating Income | 57.59 | 83.92 |
| EBITDA | 8.24 | 11.31 |
| PAT | 1.68 | 1.07 |
| Total Debt | 47.13 | 50.95 |
| Tangible Net worth | 18.40 | 22.18 |
| EBITDA Margin (%) | 14.31 | 13.47 |
| PAT Margin (%) | 2.82 | 1.25 |
| Overall Gearing Ratio (x) | 2.56 | 2.30 |

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

| Sr. No. | Name of Instrument/Facilities | Current Rating (Year 2020-21) | | | Rating History for the past 3 years | | |
|---------|-------------------------------|-------------------------------|--------------------------------|--------------------|---|---|---|
| | | Type | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2019-20 | Date(s) & Rating(s) assigned in 2018-19 | Date(s) & Rating(s) assigned in 2017-18 |
| 1. | Overdraft | Long Term | 16.46 | IVR BB+/ Stable | - | - | - |
| 2. | Term loan | Long Term | 38.41 | IVR BB+/ Stable | - | - | - |

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|-------------------------------------|------------------|------------------|---------------|------------------------------|--------------------------|
| Long Term Bank Facilities-Overdraft | - | - | - | 16.46 | IVR BB+/ Stable |
| Long Term Bank Facilities-Term loan | - | - | July, 2028 | 38.41 | IVR BB+/ Stable |